
There Is More to a Company Than Just Numbers

There is a lot of emphasis put on a company's financial data by us and by many others. This is because in the long run it is a company's earnings that determine its worth. Careful analysis of the financial data will help us determine how secure a company is, how well it is likely to hold up in adverse conditions, its ability to grow, its ability to earn a profit and yes, the numbers even help us to evaluate the job that management is doing. Plus there is something concrete about the numbers. We would not go so far as to say that the numbers never lie, but we can use them to calculate ratios, determine trends and compare one company to another in a quantitative way. We have even heard of computer programs that will run analysis on hundreds of companies and spit out the ones with the most potential based on a predetermined criteria. Then there are the program traders, professionals who use computer programs to automatically make buy and sell decisions. We might as well face it, a price earnings ratio of ten is better than twenty, Right? Or is it?

If you believe that investing is a science, then you will probably buy into the above arguments. On the other hand, maybe it is more art than science. Our position is that it is a mix of art and science. The numbers are great, they tell us a lot about the company and where it is going. However, it is the future that counts, a future that is largely if not mainly affected by people and their actions, which are never quite predictable. There are those who will always find a way to come out on top regardless of the situation, those who change with the times, those who are quick to recognize reality and adjust to it, those who refuse to fail, those who want a simple formula for success, those who are motivated by their ego's and those who will always find a way to fail even though it is never their fault. Add all this to a changing and unpredictable world and it becomes easy to see that no formula or computer program can guarantee success.

Hopefully, the above does not sound like a reason to throw up your hands and quit, because we believe that the most successful investors are the ones who recognize the challenge of combining the art and the science to make strong investment decisions. If you are interested in a company, run the numbers. Review the financial data and continue to analyse the data for as long as you hold shares or are interested in the company, but do not stop there. As well as doing the number crunching, read, read, read and listen, listen, listen. That's right, read everything you can get your hands on, listen to the news and obtain as much qualitative information as you can about the

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There is a world of things that influence a company. So pay attention to both quantitative and qualitative information.

company, its industry and the world around it. You will not agree with everything you hear, but that's okay, actually it is good. You will have to sift through the information and make your own decisions about how your company will be influenced in the long run. Then you can use that qualitative information along with your quantitative information to make informed investment decisions.

One word of warning though. Do not get caught up in the hype as it can be deadly. Many very successful investors are what they call contrarians. That is they do the opposite of the majority. So be careful not to follow the herd. Maybe the herd is wrong, or has overreacted, which leaves you, an informed investor who has done their homework, with an opportunity.
